COVERED CALIFORNIA

MEMORANDUM

July 20, 2026

TO: James DeBenedetti, Director
Plan Management Division

FROM: Deepshikha Kumar, Chief Audit Executive *Deepshikha Kumar*
Program Integrity Division, Office of Audit Services

RE: Plan Management Division – Final Audit Report –
Health Plan Payments Audit (Assignment #2526.05)

In accordance with the Fiscal Year 2025-26 Internal Audit Plan that was approved by Covered California's Audit Committee on June 20, 2025, the Office of Audit Services conducted an audit to provide reasonable assurance of the existence and strength of Plan Management Division's internal controls over the California Enhanced Cost-Sharing Reduction Program payment process for the scope period January 1, 2024, through October 31, 2025. Our report of this audit is attached.

We appreciate the cooperation and assistance of the Plan Management Division management and staff during our audit. If you have any questions regarding this report, please contact me at (916) 954-3901 or Deepshikha.Kumar@covered.ca.gov.

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Health Plan Payments Audit

Covered California
Plan Management Division

Final Audit Report

Issued on:
July 20, 2026

Prepared By:
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Program Integrity Division
Office of Audit Services

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Executive Summary

Objective and Scope

The Office of Audit Services conducted an audit to determine whether California Enhanced Cost-Sharing Reduction Program payments made to Qualified Health Plans are accurate and timely for the scope period January 1, 2024, through October 31, 2025.

Positive Observations

- The Plan Management Division timely approved interim California Enhanced Cost-Sharing Reduction payments.

- The Plan Management Division ensured total California Enhanced Cost-Sharing Reduction payments made to Qualified Health Plans were within the 2024 California Enhanced Cost-Sharing Reduction program budget of $82.5 million.

Reportable Condition(s)

We noted a matter below that we consider to be reportable under the *Global Internal Audit Standards*:

- **The Plan Management Division has not established a defined and documented validation process for Qualified Health Plan-submitted California Enhanced Cost-Sharing Reduction utilization data used to support final payment decisions.**

Follow-up

The Office of Audit Services will follow up with management on their progress of corrective action plans and will report updates accordingly to the Audit Committee. A follow-up audit may be performed to determine the completion and adequacy of the corrective action plans.

Background, Objective, Scope, and Methodology

Background

In 2024, Covered California adopted the 2024 California Enhanced Cost-Sharing Reduction (Enhanced CSR) program to help lower health care costs for certain enrollees. The program reduced what eligible consumers had to pay for out of pocket for services such as deductibles, copayments, and coinsurance.

To support these added benefits, Covered California paid interim payments to Qualified Health Plans (QHP) during the year based on enrollment and estimated benefit costs. It held back 40 percent of those payments until after the plan year ended. Covered California then compared the amounts already paid to the QHPs' actual costs. If a QHP's actual costs were higher than the interim payments, Covered California made an additional payment. If the interim payments were higher than the actual costs, the QHP returned the difference. Total payments under the program were limited to the 2024 budget of $82.5 million.

Objective

The objective of this audit was to determine whether the Enhanced CSR payments made to QHPs were accurate and timely.

Scope

The scope of this audit covered the Enhanced CSR payments made to QHPs during the period of January 1, 2024, through October 31, 2025.

Methodology

Our evaluation included gaining an understanding of the Plan Management Division's (PMD) policies, procedures, and administration over the Enhanced CSR payment process. Additionally, audit procedures were performed to provide assurance on whether PMD effectively facilitated the administration of the interim and final Enhanced CSR payments, reconciliation of payments and program budget in accordance with the plan year 2024 California Enhanced Cost-Sharing Reduction Program Design.

Results

Positive Observations

During our review, we evaluated various aspects of the Enhanced CSR payments. We were able to ascertain, with reasonable assurance, the following areas where internal controls were effective and operating as intended:

- The Plan Management Division timely approved interim California Enhanced Cost-Sharing Reduction payments.

- The Plan Management Division ensured total California Enhanced Cost-Sharing Reduction payments made to Qualified Health Plan were within the 2024 California Enhanced Cost-Sharing Reduction program budget of $82.5 million.

Findings & Recommendations

Finding #1 – The Plan Management Division has not established a defined and documented validation process for Qualified Health Plan-submitted California Enhanced Cost-Sharing Reduction utilization data used to support final payment decisions.

Finding Rating:	Priority	High	Medium	Low

Condition
PMD performed the following reconciliation and validation activities for plan year 2024 Enhanced CSR utilization data:

- PMD reported performing a review of QHP submissions, analyses of utilization rates, and consultation with actuaries.

- PMD provided a high-level process document and supporting records describing its comparison of QHP-submitted data to data derived from QHP Healthcare Evidence Initiative (HEI) submissions.

Additionally, PMD stated that the HEI data relied upon to validate QHP-submitted Enhanced CSR utilization data was incomplete and not sufficiently reliable to support detailed validation.

The Office of Audit Services recognized PMD's efforts but identified the following documentation and process gaps:

- The documentation provided did not demonstrate the additional validation activities PMD stated it performed, or the basis for conclusions supporting final payment decisions. Supporting records also did not align with the documented process or show how significant variances were evaluated and resolved.

- Although PMD resolved data gaps with QHPs for plan year 2024, and no QHP disputed the final reconciliation amounts, the documentation did not provide a traceable record of the validation performed.

- PMD had yet to document the alternative criteria and procedures used when available data was incomplete or insufficiently reliable for detailed validation.

Criteria
Plan Year 2024 California Enhanced Cost-Sharing Reduction Program Design, Payment Calculation Methodology, Reconciliation Methodology, Carrier (QHP) Direct Costs, states, in part: "Covered California will validate the PY 2024 CSR Reconciliation Reporting Template data against reports generated from QHP Carrier's HEI Data Submissions".

Cause
Plan year 2024 marked Covered California's first year implementing the Enhanced CSR Program. During implementation, PMD managed data limitations, evolving system outputs, and a compressed timeline. These challenges contributed to PMD's ability to fully execute and document processes resulting in the identified process gaps. PMD indicated that improvements to the HEI data warehouse, related vendor and QHP processes, and system reliability have enabled it to perform key validation checks earlier for the plan year 2025 reconciliation process.

Effect
Without a detailed documented validation process, Covered California has limited assurance that QHP-submitted Enhanced CSR utilization data used in the final reconciliation process is complete, accurate, and consistently reviewed. As a result, Covered California faces an increased risk of inaccurate or inequitable payments to QHPs. Additionally, gaps in the demonstration of validation activities reduce transparency, limit management's ability to show that final payment determinations were appropriately supported, and increase the risk of rework, payment delays, and reputational harm.

Recommendation
PMD should establish a detailed documented validation process for QHP-submitted Enhanced CSR utilization data to support final payment decisions. The validation process should, at minimum, define and document the following:

- The data sources to be used.
- The level of review expected.
- Documentation requirements for validation work performed.
- Timeframes for completing key validation steps.
- The process for investigating and resolving significant variances before final payments are approved.

Conclusion

PMD effectively managed the Enhanced CSR Program. However, as highlighted in the finding we identified, there is an opportunity to improve the Enhanced CSR reconciliation and final payment process through a defined and documented validation process for QHP-submitted Enhanced CSR utilization data. The finding is rated as medium risk due to the potential for financial misstatement in QHP payments, reduced assurance over the accuracy and fairness of fund distribution, and reputational and operational impacts to Covered California if the issue is not addressed.

Management Response

Presented below is PMD's management response to the finding which includes their corrective action plan.

Finding 1:	The Plan Management Division has not established a defined and documented validation process for Qualified Health Plan-submitted California Enhanced Cost-Sharing Reduction utilization data used to support final payment decisions.
Recommendation:	PMD should establish a detailed documented validation process for QHP-submitted Enhanced CSR utilization data to support final payment decisions. The validation process should, at minimum, define and document the following: • The data sources to be used. • The level of review expected. • Documentation requirements for validation work performed. • Timeframes for completing key validation steps. • The process for investigating and resolving significant variances before final payments are approved.
PMD Management Response/ Corrective Action:	PMD is currently in the process of the 2025 Reconciliation and will work to ensure lessons learned are incorporated into this year's reconciliation process. PMD will share documentation and updates to the reconciliation process with the Audit team by January 15, 2027. PMD will improve the Enhanced CSR Program Reconciliation and final payment process through a defined and documented validation process for QHP-submitted Enhanced CSR utilization data. Reconciliation Process Improvements and Documentation to include: • Data Sources used, such as Carrier Direct Costs reported, HEI data, other actuarial guidance reports available. o Clearly define the status and limitations of the data sources used at the time of Reconciliation, and any alternative data sources or validation criteria used.

	• Validation activities PMD performs for the Reconciliation Process, with reasonableness criteria and expectations.
	  ○ Documentation of unexpected variances found and addressed.
	  ○ When certain aspects of the validation process fall outside of the established criteria for approval, PMD will document how and why the variation is approved.
	• Timelines of validation activities.
	• Conclusions for final payment decisions.

Targeted Completion Date:	January 15, 2027

Evaluation of Response

The corrective action plan provided by PMD, if implemented as intended, should be sufficient to correct the reportable condition noted. The Office of Audit Services will conduct quarterly follow-ups to provide reasonable assurance that the corrective action plan has been implemented and is operating as designed. Additionally, a follow-up audit may be performed to determine the completion and adequacy of the correction action plan.

We thank PMD for their help and cooperation during this audit.

Appendix A

Finding Ratings

Finding	Priority	High	Medium	Low
1. The Plan Management Division has not established a defined and documented validation process for Qualified Health Plan-submitted California Enhanced Cost-Sharing Reduction utilization data used to support final payment decisions.			X	

Rating Definitions

Priority	Immediate and on-going threat to the achievement of division or Covered California strategic goals and objectives. In particular: - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur Management must implement corrective actions as soon as possible and monitor the effectiveness.
High	High probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions. - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur
Medium	Medium probability of adverse effects to the division or Covered California as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions. - Medium potential for adverse impact on reputation - Potential increase in the likelihood that risks may occur
Low	Low probability of adverse effects to the division or Covered California as a whole, but that represent an opportunity for improving the efficiency of existing processes. Correcting this will improve the efficiency and/or effectiveness of the internal control system and further reduce the likelihood that risks may occur.